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# HISTORICAL STUDY OF FIRE INSURANCE IN THE UNITED STATES

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In a history of fire insurance in this country one must of necessity consider whence the business came, the stage of its development, when it came and, to some degree, its originating cause. Only enough can be said on these points to identify its origin, establish the line of descent, and set forth how and when it came to be brought to this country. Furthermore, the consideration of so large a subject in a brief paper, can only be of a skeleton character with a fair emphasis upon some of the formative factors.

One of the results of the great fire of London in 1666 was the devising of plans for the protection of individuals against loss by fire. The great fire of London was relatively the greatest in the history of the world, over three-fourths of the buildings in the city having been destroyed, and the estimated loss aggregating about ten million pounds sterling. So great indeed was this loss that, ten years later, the buildings had not all been replaced. Quite a number of plans were tried, and before the close of the century a company, which finally became the Hand-in-Hand, was established. In 1706 Charles Povey opened an office in London for insuring property owners in that city against loss from fire, but his plan merely involved his promise to pay. Shortly after this first attempt, he started another enterprise for the purpose of insuring against loss from the destruction by fire of personal property throughout Great Britain and Ireland, and in 1710 organized a proprietary or stock company which took over these two institutions, and which was named the Sun Fire Office, though commonly referred to at present as the Sun, of London, which will exist as one of the leading fire insurance corporations of the world, and is as familiarly known in this country as at home. In 1720, two more companies were

chartered, which still exist, and both of which maintain branches in the United States, namely, the Royal Exchange and the London Assurance.

Fire insurance may be said to be due to an idea born of necessity and only existing at the beginning of the eighteenth century in a crude and experimental form. The period being the colonizing one, the Englishmen who came as settlers to this country brought the idea with them, so that the development of the thought of making the fire loss less burdensome to the individual is as much, if not more, American than British. Originating in England, two separate lines of fire insurance development have been carried forward, each influenced by local features of indemnification, but with remarkable fidelity to type, and from these differing lines of development has grown up an international business factor of large importance.

Having noted its origin and traced the line of descent, let us now follow the fortunes of the younger branch of the fire insurance family as developed in this country. In doing this it may be noted that fire insurance and the more employed marine insurance became early factors in the commercial development of the colonies. They grew with the growth of the business of the country, and have been part of the bone and sinew of material prosperity of the American people.

The first forms of insurance in this country were marine. In 1682, as we are informed from records, vessels engaged in trade between England and the colonies, were insured against the perils of the sea, and as early as 1721, an advertisement appeared in the *American Weekly Mercury* announcing that John Copson, of High street, Philadelphia, would open an office for insurance on "vessels, goods and merchandise." For quite a long period the insurance business of the colonies continued to be marine; part of it being written by agents of English companies, and the remainder being issued in American ports. In 1762, at the London Coffee House, at the southwest corner of High and Front streets, Philadelphia, John Kidd and William Bradford, announced that they would underwrite risks in general, and before the close of the century a considerable number of such offices had been established. In Philadelphia the first steps toward the protection of property took the form of organizations for the extinguishment of fires and regulations concerning

the nature and location of buildings. In 1730, the city authorized the purchase of three more engines, four hundred buckets, twenty ladders and twenty-five hooks, and in 1752 with approximately 2,076 dwelling houses (not including churches, public buildings, warehouses and workshops), the city possessed seven fire extinguishing companies.

In this same year, the *Pennsylvania Gazette*, under date of February 18th, contained an advertisement of proposed articles of insurance of houses from fire in or near the city. The plan had the approval of the lieutenant-governor of the province and of Benjamin Franklin, and on April 13th, directors were elected and the Philadelphia Contributionship was thus formally organized, being the first fire insurance company to be organized in the United States. Its plans were an adaptation of those of the Hand-in-Hand of London; in fact, the company became quite generally known as the Hand-in-Hand, and its first house mark was four hands clasping wrists. One curious incident should be noted. The directors of the Contributionship in 1781, decided that houses having trees planted before them, should not be insured, because the trees made it difficult to fight fires. This policy created considerable friction and opposition, out of which grew, in 1784, the Mutual Assurance Company. The house mark of this new company was a green tree, cast in lead, fastened to a shield-shaped board, affixed to the front of the insured property. Both of these companies are still in existence and continue to transact business along the same general lines as at first, namely, what is known as perpetual insurance. This, in brief, is a deposit of a certain percentage of the face value of the policy which is paid once for all, the interest on it proving sufficient to provide for the losses sustained. In 1794, the Baltimore Equitable Society operating upon the same general plan, was established.

In December, 1792, the General Assembly of Pennsylvania was petitioned for permission to incorporate the Insurance Company of North America, and on April 14, 1794, the incorporation of the company was authorized, and almost immediately thereafter, that of the Insurance Company of the State of Pennsylvania. Both of these companies were organized to transact marine insurance, but during the first year of the North America's existence, the directors concluded to add the business of fire insurance, and the proposals for insurance were completed in the latter part of the year. The pro-

posals were for insuring full value. Two general hazards were provided for: the first class including common insurances and providing for brick or stone houses, stores and furniture or merchandise therein, while the second included those houses which were not wholly brick and stone and such extra hazardous goods as pitch, tar, turpentine, etc. For the first class the rate was thirty cents per hundred on an eight-thousand-dollar policy and forty-five cents on a policy not exceeding sixteen thousand dollars; while in the second class, the rates were seventy-five cents per hundred dollars.

The earliest company in New York, of which we have any record, was the Knickerbocker Fire, organized April 3d, 1787, under a deed of settlement. The original title, however, was that of the Mutual Insurance Company, the name Knickerbocker not being assumed until May 12, 1846. The company was by its charter permitted to transact fire, marine and life insurance, and in less than a month, the New York Insurance Company was organized with practically the same privileges. Three years later, March 21, 1801, the Columbian Insurance Company of New York was organized, and on April 4, 1806, followed the incorporation of the Eagle Fire with a capital stock of \$500,000, and now the oldest New York stock fire insurance company. Most of the companies in New York organized during the latter part of the eighteenth century and the first forty years of the nineteenth century, were what are known as special charter companies and, following the development of the day, most of them were organized for the purpose of writing marine insurance. Another of the early New York companies which is still in business, is the Albany Insurance Company, which was organized in March, 1811. The charters of most of the companies of this day, were what are known as limited charters. Some of them were for twenty years, some for thirty, but the principle of limitation was quite generally and distinctly recognized.

Commerce early became an important part of New England development, and most of the towns were seaports or situated at the head of navigation on the more important rivers. As soon as the New Englander began to trade, he recognized the hazards which attended the transportation of merchandise. No sooner was this recognized than marine insurance in its earlier forms made its appearance. The marine companies in New England, as in other parts of the country, issued fire insurance policies as soon as there was

a call for them. Fire insurance, however, did not seem as important as marine insurance and the stronger of the early insurance companies devoted more of their attention to waterborne merchandise. In 1799, there was organized at Providence, the Providence-Washington, which still continues to do a prosperous business.

The early underwriting in Connecticut, as in the other colonies, was generally of a personal or partnership character. It should be remembered that the country in the last decade of the eighteenth century, was poor. Its capital had been very largely exhausted by the Revolutionary struggle, and enterprises which had been prosperous had been completely disorganized, and during the whole period of the confederacy the uncertainty of the future paralyzed to a large extent the commercial life of the colonies. The industrial life of Connecticut was simple; coarse articles for necessary use were manufactured, and the surplus products of agriculture and merchandise of home manufacture were exported to the West Indies. In 1792 the Hartford Bank and the Union Bank of New London were organized, and with the business development which followed the organization of these institutions insurance partnerships came. Thus, in 1794, Sanford and Wadsworth opened an office in Hartford for insuring furniture, merchandise, etc., against fire, and the next year associated with themselves Jeremiah Wadsworth, John Caldwell, Elias Shipman and John Morgan in a co-partnership under the title of the Hartford and New Haven Insurance Company for the purpose of insuring vessels, stock, merchandise, etc. In 1797 Elias Shipman established a separate office in New Haven which was chartered as the New Haven Insurance Company, but which retired in 1833. The men interested in these insurance ventures, for they were ventures, were the merchants of the leading cities, Hartford taking and holding a commanding position. Jeremiah Wadsworth, one of the leading spirits in the mercantile and financial life of Hartford, was well known outside of that state, since, for example, he was one of the founders of the Bank of North America of Philadelphia in 1781, holding one hundred and four shares of the original stock. In 1785, he was elected president of the Bank of New York, and was also interested in the organization of the Hartford Bank. This note of Colonel Wadsworth is given so that the character of the men who engaged in early Connecticut underwriting may be understood and the reason seen why Hartford

has always held such a prominent position in the underwriting world. It is because men of brains, means and faith established the business.

As these partnership policies involved a great deal of labor, the organization of a corporation seemed a very natural step, and in 1803 a charter was procured for the Hartford Insurance Company. The business of this company was marine and the capital was \$80,000 in shares of \$40 each. Twenty-five per cent. was paid in notes and 75 per cent. in notes secured by mortgages. But in 1825 the company was merged in the Protection Insurance Company. About this time also, a group of companies was organized for the purpose of writing marine insurance, but most of them were obliged to go out of business on account of the depression in marine commerce consequent upon the War of 1812. Some idea of the paralysis of commerce of the United States caused by the embargo and non-intercourse acts, is to be gathered from the fact that exports fell from \$110,084,207 in 1807 to \$22,430,960 the following year. Duties on imports at New London shrunk from \$201,838 in 1807 to \$22,343 in 1810. Most of the marine companies were killed as a result of the depression. The Norwich was saved by changing its business to fire insurance in 1818 and as noted above, the Hartford was transformed into the Protection.

The oldest fire insurance company in Connecticut is the Mutual Assurance of the City of Norwich, which was organized in May, 1795, under a deed of settlement. The company has never attempted to do a large business, being largely a neighborhood affair. In 1810, the Hartford Fire was organized and is thus the oldest stock fire insurance company in the state. The original capital was \$150,000, with privilege of enlargement to \$250,000. The subscribers were obliged to pay in 5 per cent. in thirty days and 5 per cent. more in sixty days, the remaining 90 per cent. to be secured by notes and mortgages. There was not a great deal of money to be had in those days, consequently notes and mortgages had to form the principal basis of corporate organization. The organizers of this company had everything to learn, because they knew nothing about fire insurance, for there was not much to be known. It was chance, pure and simple. There were no data by which the cost and the charge could be brought into anything like proportionate relations. Some idea of rates may be gathered from the charges on a few of the

early policies. Number one was a builder's risk of \$4,000 for three months at twelve and a half cents. Number five was \$10,000 on a gin distillery at  $1\frac{1}{4}$  per cent. Numbers twenty-one and twenty-two were \$20,000, being respectively on a stock of drygoods and hardware, the former at seventy-five cents and the latter at twenty-five cents. The year after the company organized, it began to plant agencies, but without any system. For instance, there was one agency at Canandaigua, N. Y.; another at Middlebury, Vt., and by 1820, an agency had been established at Cleveland, Ohio. As showing the relative importance of cities and towns, it should be noted that it was not until 1821 that an agency was established in New York City. The compensation was a sort of graded commission, determined by the importance of the town. Three of the agents were given 10 per cent. on all premiums received exceeding \$1,000 for any one year, while in the early years some gratuities were voted by the directors to those who had rendered special services. The president received no salary until 1823, when he was paid \$200 per annum, voted semi-annually after the work had been done.

The first secretary of the Hartford Fire, Walter Mitchell, did not live in Hartford, but in Wethersfield, and appears to have suited his own convenience as to office hours. His convenience was not exactly the convenience of the citizens of Hartford and so in 1819 the Ætna was organized, with a capital of \$150,000 with the privilege of increasing it. The first policy of the Ætna was issued August 7, 1819, and about a month later, the first reinsurance known in this country was entered into by the Ætna when it assumed all of the outstanding risks of the Middletown Fire. It rather liked the experience apparently, because three years later, it was willing to reinsure the New Haven Fire, which reinsurance, however, was secured by the Hartford. In the beginning of the fire insurance business, the matters which are now sent to trained experts, were considered by the board. The vital portions of each policy with the survey were read to the board of directors before delivery. The officers and directors did quite a little traveling or exploring, and on these trips, made from time to time, agents were appointed, which was the principal work of a fire underwriter when traveling in those days. In 1822, the directors of the Ætna voted the secretary two dollars per day and his expenses when he went out to establish agencies; while he was drawing his per diem allowance,



however, his salary as secretary was suspended, since they did not believe in paying for work which was not performed. The secretary, however, did not do all of the pioneering work, much of it being done by the directors. Twenty years after the company was organized, Joseph Morgan, one of the original directors, made an extensive western trip, which occupied ten weeks and his expense account averaged \$3.29 a day. His grandson would probably think such an allowance rather short commons.

The pluck of these early underwriters is well illustrated by the action of the Ætna directors in the matter of settling the losses incurred by the great fire of 1835 in New York. The Ætna's losses amounted to \$115,000. The directors were notified that the fire would probably exhaust the entire resources of the company, and one of the directors asked President Brace what he intended to do. "Do?" he replied; "go to New York and pay the losses if it takes every dollar there," pointing to the securities of the company, "and my fortune besides." The directors pledged him their support and the losses were paid. The premium receipts increased so rapidly that in twelve months the Ætna had as much cash as before the fire. It was the same spirit which led the shareholders to contribute \$2,500,000 to maintain the technical solvency of the company after the Chicago and Boston fires. The success of institutions with such men in charge is assured when they take hold.

Until the close of the century there had been about ten mutual and four stock companies, organized in the country, while by 1820, this number had increased to seventeen stock companies in New York, six in Pennsylvania, two in Connecticut and one each in Rhode Island, New Jersey and Massachusetts. Of these, twelve are still doing business. It should be noted here that very early in the history of the business, an attempt to exclude foreign insurance companies was made. Statutes were enacted in Pennsylvania and New York in 1810 and 1814 respectively, forbidding foreign companies to transact business in this country. These prohibitory statutes continued in force until after the great fire in New York in 1835, which rendered necessary the enlargement of the sources from which fire insurance indemnity might be secured. Most of the early companies transacted both fire and marine insurance. As the business of the country developed, the people began slowly to recognize the importance and necessity of fire insurance, though

for many years the growth of public recognition was slow. The burden of the fire loss in the smaller communities was quite largely borne by voluntary contribution. A man's house or barn was burned and the owner's neighbors made up a purse which should enable him to rebuild, or help him at least, to get a new start; and in some portions of the country this practice obtained until past the middle of the nineteenth century. In some of the municipalities, ordinances were enacted which compelled owners of property to have and keep in repair, leathern buckets. Some idea of the slow development of the business can be gathered from the fact that while the Insurance Company of North America decided on its form of fire insurance policy in November, 1794, it had, one year later, only issued seventy-three policies. In 1796, this company decided to accept risks in any part of the United States if the premiums were adequate to the risk in the opinion of the officers, and in that year it had risks on its books in Western Pennsylvania, New Jersey, New York, Massachusetts, Delaware, Maryland, Virginia, North and South Carolina. In 1798, it declined an application for an agency in Charleston, S. C., but in 1807 the company decided to authorize agents. There was quite a rapid growth of companies during the first thirty years of the nineteenth century, which companies, as a rule, were purely local, there being only one here and there which transacted any business to speak of, outside of the cities where it was located. There was but little security behind the policies issued beyond the current receipts and the good faith of the men who managed the companies.

The great New York fire of 1835 swept out of existence most of the New York companies. This fire closes what may be termed the first period of American fire insurance, a period devoted almost wholly to pioneering. While many of the corporate ventures were failures, still the lessons of the period pointed the way to the more perfect development which was to follow. Mistakes were discovered and steps taken to correct them. A question asked of Edwin G. Ripley, for example, led to the classification of risks. One of the patrons of the company, noticing the frequency of fires in certain lines of business, asked Mr. Ripley if the *Ætna* made money on paper mills. The question was a poser, but he straightway began to get ready to answer the next man, and so started the classification of risks several years in advance of his competitors. At this

time, also, fire insurance in the large cities had become a recognized factor in commercial life. Outside of the cities, however, it was looked upon with more or less distrust, or perhaps it might be said was considered unnecessary.

Turning our attention to the second period we find new factors entering the business. The public demanded more certainty in the matter of the contracts and greater provision for the stability of the companies, so in 1837 the first step was made in the direction of reservation. The State of Massachusetts provided that companies should maintain a fund to insure their contracts being carried out, and this was the beginning of what is known as the unearned premium fund. The start toward this is an important factor in development as it marks the beginning of two things: First, making sure that the policyholders shall be protected in the contracts they have entered into with the companies; and second, the entrance into the fire insurance field, of the state, which, from this modest beginning as will be seen later, has gradually developed the extensive system now known as state supervision.

The development of this idea of reservation is interesting, especially in view of the fact that it is recognized to-day as one of the corner-stones of successful fire underwriting. In 1853, the New York legislature enacted a law providing for what is known as the unearned premium reserve. By the terms of this law, a reinsurance fund ranging from about 30 to 60 per cent. of the unexpired premiums was required to be maintained. The sum thus set aside, which became a liability, was assumed to be sufficient to reinsure in a solvent company the unexpired risks of a company which desires from any reason to retire from business. The legislature tinkered with the law in 1862, providing for the reservation of the full amount of the unexpired premiums in all cases where dividends exceeding 10 per cent. were paid. The companies considered this a burden and sixty companies petitioned the legislature to change the law requiring 100 per cent. reservation to one fixing the percentage at 50 per cent. of the premiums. The New York insurance department opposed this request, and justified its opposition by figuring out from the loss record that a 50 per cent. reinsurance fund was inadequate. This subject of reservation and dividends was also discussed by the Massachusetts supervising officials and in the ninth annual

report of the Massachusetts insurance department, it was proposed to establish what was known as a "state guarantee" by which the companies should pay an annual tax. There were to be three classes under this scheme: the first, where less than two million dollars of risks were insured, the dwelling-house tax was to be five cents on every hundred dollars insured and ten cents per hundred on other buildings and personal property; the second class, where the amount at risk was between two and six million dollars, was to pay a tax of two cents and four cents per hundred at risk; and the third class, where the amount at risk was over six million dollars, the tax was to be one-half cent and one cent on each hundred dollars insured. This shows the experimentation indulged in by state departments for the purpose of getting the business upon a sound loss-paying basis. In these early days of state supervision, companies desiring a license were examined by special commissions. The requirements were slight, and not infrequently the companies of this period were obliged to go out of business within a few years after organization. When the conditions which existed in the fifties and sixties are compared with those of the present day, it will be seen that the evolution of the business has been steadily toward certainty so far as the policyholders are concerned, though no means has been devised to prevent the capital invested being dissipated through bad management and excessive losses.

Another feature of the second period was the development of the mutual idea. The New York fire of 1835 destroyed a great majority of the New York companies. This created a feeling of distrust in the public mind and the organization of mutual companies became the order of the day, and by 1853 sixty-two companies reported to the comptroller of New York, having an aggregate capital of over eleven million dollars. The mutual plan commended itself to the people of that day as correct theoretically and economical in operation. In practice, however, these companies proved unsatisfactory for the reasons that they were based upon incorrect principles and because of a lack of staying power. One of the weaknesses of the mutual plan in practice is admirably stated in the report of James M. Cook, comptroller of New York in 1854, in which he says: "The formation of a mutual insurance company upon a proper and sound basis never contemplated the taking of risks in other states than our own."

The mutual companies had attempted to operate upon the same basis as the stock companies did. The mortality among the mutuals, however, was excessive. A general insurance law was enacted in 1849, and during the succeeding four years over fifty-four mutual companies were organized. By 1860, however, only seven of these survived, and Superintendent of Insurance Barnes, of New York, estimated that the losses to the people through the failure of these forty-seven companies averaged at least \$50,000 per company. These companies were organized with premium notes as capital in amounts far exceeding the ordinary and legitimate premiums to be charged in the regular course of business. The second error was that of permitting mutual companies to issue both mutual and cash policies. These mutual waves have gone over the country at irregular intervals ever since and in each instance, the original experience has been duplicated to a greater or less extent.

Two forms of mutual companies have persisted. One, township mutuals, which as long as they confine their operations to a small territorial area, where every person knows every other person, aid in the distribution of the fire loss of a given country community and serve their purpose well. Where they branch out and attempt to do a village and city, or general business, failure is inevitable. The second form of mutual development is that typified by the mill mutuals. These are based upon knowledge, inspection and improvement. They have, however, in all cases ultimately failed as mediums for transacting a general fire insurance business.

The companies gradually recovered from the blow of the New York fire and in a few years additional companies had started so that the number of companies was in a measure, commensurate with the growing business of the country. There were a large number in New York, Philadelphia and Boston, and there were companies in other cities where there was enough local business to warrant. These companies served the business of the country well, as a whole, and only began to retire as the development of the country's business interests, consequent upon the development of the railway system and the telegraph, gave the company doing a general business a decided advantage over the one doing a local business. In this period also state supervision took a definite form in the shape of the establishment of departments by New York and Massachusetts and gradually by other states. Attempts were also made to

devise a more nearly uniform fire insurance policy. Up to this time, and for a considerable time thereafter, each company devised its own policy contracts. It took what seemed to be good out of the English policies, clipped from its neighbors, and as one man with much experience said, this was, so far as policies were concerned, the period of scissors and paste pot. The agents and the companies, principally the companies, in some of the large cities, formed local boards during the fifties. These boards, dominated mostly by local companies, were the forerunners of the present system of organizations of local agents, but were materially different because they were largely experimental. Out of this local board movement also grew an agitation for better fire protection, and thus while in the early history of the country, nearly all the fire departments were volunteer, paid departments gradually became the rule, and the companies established protective departments for the protection of damaged stocks so that the loss might be lessened through care. The successors of these departments are the fire patrols of to-day. Some facts concerning these early local boards may be of interest. In 1819, an organization was formed in New York, known as the Salamander Society, the members of which were pledged not to deviate from established rates of premium. New companies were invited to join and if they refused, were to be specially considered, which appears to have been understood and acted upon as a threat. This organization was of little practical significance, and was followed by another organization in 1826 and another in 1857, which formed the fire patrol or fire police in 1859. Some few attempts were made in the late thirties and in the forties towards standard rating, but merely amounted to a faint foreshadowing of the system which is being striven for to-day. The record of the New York board is typical of most of the local boards of the earlier day.

Another step in the progress of this period was the employment of special agents, better known as field men, owing to the spreading out of companies which did business in other places than the immediate vicinity of the home office. The strictly local company could supervise and care for its business through employees of the home office. When distances, however, became too great for this class of employees, men had to be employed for this special work of looking after the field. At first, the greater part of the work of special agents was the adjustment of losses, though they paid some

attention to the agencies, at times inspecting risks and authorizing rates. The period under review was one when the West was being settled and the foundation laid for the magnificent development of the latter half of the nineteenth century. These pioneers with their poorly constructed and rapidly-growing villages and cities, soon felt the need of fire insurance. Yet the Middle West, or as sometimes termed, "beyond the Alleghenies," was almost an unknown land and the ignorance of the East persisted long after the canal boat, river steamer and railway had begun to open this region.

In the history of the early days of insurance in Connecticut, attention was called to the fact that the Hartford Insurance Company, organized in 1803, to write marine insurance was merged in 1825 with the Protection, organized to write a fire insurance business. The secretary of the Hartford became the president of the Protection, while the secretary of the Protection, Thomas Clap Perkins, had much to do with the pioneering work of the Protection. Ephraim Robins, a merchant of Cincinnati, saw a notice in a Hartford paper that the Protection had been formed. Having lost most of his property in a cyclone, the importance of insurance was presented in a very forceful way to the mind of Mr. Robins. He came to Hartford, presented the claims of the West in such a way that the company authorized the establishment of a western department with Mr. Robins as general agent. This was in 1825, and the task of planting the agencies of the company in Ohio and other western states was immediately started. The company's office was a sort of headquarters for prominent Whig politicians, and also proved to be a training school for some of the brightest and most successful men in western fire insurance. The western department of the Protection was the beginning of the American agency system on anything like a large and comprehensive scale. The business grew rapidly and when Mr. Robins died in 1846, the premiums collected by the agency amounted to three million dollars. From the western office of the Protection, went the forerunners of the modern special agent or field man. Among the prominent fire insurance men who were trained in the western office of the Protection, may be noted the Bennett brothers, J. B. and F. C., H. M. Magill, W. H. Wyman and several others. The Protection eventually failed because it did not build up a large enough surplus and its officers did not really know where the company stood owing to a lack of systematic knowledge.

Following the Protection, the Insurance Company of North America and the Ætna made the venture into the territory west of the Alleghenies, the former locating at Erie and the latter at Cincinnati. The failure of the Protection gave a great impetus to the development of the western department of the Ætna, as it was in the field and ready to make the most of the opportunity offered. In 1853, J. B. Bennett became general manager of the Ætna and took charge of the western business. The same year that he took charge of the Ætna's affairs, J. B. Bennett prepared a blank proof of loss. Before this time, these proofs had been written out on the occasion of each adjustment. This was a waste of time from Mr. Bennett's standpoint and so he prepared a form which, in its essential features, has not been changed since. The Hartford began to send out numbered policies in 1864. These companies employed special agents, who, working under conditions hard to realize to-day, went up and down the country, appointing agents, inspecting towns and settling losses. Indeed the fire insurance business is greatly indebted to these men for their faithful labor. Many mistakes were made in this period, because there was little co-operation, but still there was a gradual approach toward better conditions and a larger and more comprehensive development. Nearly, if not all of the companies organized during the first period, made the mistake of dividing too large a proportion of the profits and thus not leaving enough money to meet the drain of heavy losses. When a big fire occurred, the companies found themselves in a difficult situation and several times it was only by guaranteeing by the directors of their personal fortunes that a company was enabled to survive. This tendency of keeping up dividend payments at the expense of surplus, continued well past the middle of the nineteenth century and the importance of maintaining a good working surplus was not fully realized until after the Chicago and Boston fires. In 1864, the superintendent of the New York insurance department in his annual report, declared that several companies were accustomed to declare dividends without making any provision at all for outstanding risks. Legislative provision was made in New York to prevent this, as in 1849, it was enacted that "no dividend should ever be made by any company when its capital stock was impaired or when the making of the dividend would have the effect of impairing its stock, and any dividends made in violation to such section, subjected the stock-



holders to an individual liability to the creditors to the extent of the dividend so received." Still they continued the practice of declaring such dividends until forced by the hard school of experience to transact their business upon business principles.

The third period of fire insurance development begins practically with the close of the Civil War. This may be termed the period of co-operations. Conditions were very unsatisfactory; rates were low, and prosperity for the companies was not very apparent. Hence, in 1866, the fire insurance companies of the country organized the National Board of Fire Underwriters, and for the next ten years it was the controlling factor in fire underwriting; and marks the most important change which had so far been brought about in the fire insurance business. Its purpose was to bring about a co-operation between the companies upon matters of common interest, and to insure adequate rates and proper forms. At this time there were a very large number of local companies and quite a number of what are best classified as agency companies. No one man in this period did anywhere near as much for the development of the business and the establishment of new ideas as J. G. Bennett, western manager of the *Ætna*, who made it a point to familiarize himself with the western country, which was then one of magnificent distances.

Three new factors came into the fire insurance business about this time: First, the daily report, devised in 1867 to facilitate the transaction of business, gradually took the place of the old monthly statement, but was slow in winning favor with underwriters since some of the managers preferred the old form of reporting as being more satisfactory. The original form of the daily report devised by Alexander Stoddart, has not been materially changed with the passing years. The idea was to select good men in the different towns as representatives, have them examine the property upon which insurance was sought and send in a daily report, containing the written portion of the policy and diagram of its exposures, the rate, terms, etc.; in fact, a practical reproduction of the descriptive part of the policy. This was sent to the home office, the agent at the same time writing and issuing the policy. If the company did not care for the risk, it notified the agent and the policy was withdrawn. This departure placed a very great responsibility upon the local representatives since they virtually passed upon the business of the company and most of them, be it said to their credit, served their

company most faithfully. This plan was popular and was gradually adopted by all the companies. It is one of the great foundation stones of the modern agency system.

Out of this idea of a daily report grew two others. The first one was to have some means of keeping the home or branch office in touch with the agents, and also affording the company an independent source of information concerning the character of the business written. For this purpose, the special agent had the scope of his employment widened beyond the mere adjustment of losses. He travelled around among the agents, appointed new agents in desirable territory, secured an idea of the larger risks and special hazards of the towns he visited, saw to it that the agents kept their monthly accounts paid up and, generally speaking, was the hand of the company in the field. Soon the incompleteness of the information furnished the home or branch office, as to the physical character of the risks and their environment presented a problem which had to be solved. To solve this, the special agents made diagrams of the towns they visited and marked upon them the risks of the company. Originating in the Ætna's western office, but antedating this period a little, was the business of making maps. On the first of May, 1856, William H. Martin, a civil engineer, was employed by the Ætna to make maps of important points where the company was transacting business and in June of the same year, the first map was copyrighted in the name of the Ætna Insurance Company. One of Mr. Martin's assistants, D. A. Sanborn, saw the possibilities of the map business. He removed to New York and tried to induce Mr. Martin to join him, but the latter preferred to remain with the Ætna and did so until his death in April, 1903. These maps made it so much easier to transact the business of the company that quite a demand was created for them, resulting in the almost universal use of what are known as the fire maps. The large towns and cities are mapped, and the map company keeps them up to date, supplying the insurance company with all the changes. The map department of the modern fire insurance company is one of its most important adjuncts. It enables the daily report examiner or manager in the office to know quite accurately about the character of the risk he is to pass upon. The amount which the company has in any block is marked on the map, so that at a glance, it is possible for the company to decide whether it desires to increase its holdings.

Before the use of maps, however, all of the risks of the company were marked, and a record of the company's holdings were kept on what are known as block sheets. These enabled the company to know the amount it had at risk, though they did not furnish information as to environment such as the modern fire map gives at a glance. These three devices gave the business a wonderful impetus. An old underwriter, for example, states that one of the great advantages secured through the use of the daily report was that the frequency of the knowledge prevented stealing on the part of agents through writing short term insurances which were not reported. This underwriter estimated that his office saved at least 12 per cent. through the increased frequency of knowledge concerning the writings of the local agents.

Belonging to this third period, but really beginning with the closing years of the second period, was the opening of the Pacific coast to the business of fire insurance. The Phoenix, of Hartford, was the pioneer. The officers of the Phoenix visited the Pacific coast, looked over the ground, and on May 1, 1862, established a Pacific coast department in charge of R. H. Magill. At this time, all the fire insurance business of the coast was written at San Francisco through correspondents. The company had a correspondent in a town, information concerning the risk and the amount desired was sent in, the policy issued and forwarded. This was rather cumbersome and slow, so in 1863, Mr. Magill began the establishment of local agencies in the towns of the coast. His success was so great that other companies were obliged to follow his example.

The National Board of Fire Underwriters was just beginning to wrestle with some of its difficult problems when along came the Chicago fire and wiped out many of the insurance companies of the country. Many of the purely local companies were caught through the surplus lines they wrote or the re-insurances which they secured from the agency companies. The companies had only partially recovered when along came the Boston fire and completed the wrecking of a large number of the fire companies which had been struggling along in a crippled condition during the year intervening between the two fires. The National Board now promptly took hold of the situation, and rates were sharply advanced. State boards and local boards in smaller towns were organized and an elaborate system of control was worked out; in fact, in the long run, it was too elaborate. These

fires imposed upon the National Board not only revision of rates, but also problems of construction. Chicago had been a wooden city, Boston had also much wood in its construction, and the dangerous mansard roof was then in the heyday of its popularity. A determined crusade was therefore made against these forms of construction, and the preparation of a basis or schedule for rating was attempted at this time. There was also a large influx of new companies as a result of the increased rates following the Boston and Chicago fires.

In 1874, the companies doing business in New York were compelled to report their unearned premium liability, and to this period also belongs the adoption of the safety fund law in New York. The increase in the number of companies and the profit which attended the business because of the increased rates, induced a period of demoralization which extended from 1874 to 1880, during which numerous irresponsible companies were formed. To make matters worse, the National Board, in April, 1877, stopped making rates and relegated this subject back to the local boards, with the result that the high rates could no longer be maintained. Every company was a law unto itself; there was no profit, and it was apparently a struggle for the survival of the fittest. The fire insurance business, however, had become so large that this demoralization could not be permitted to continue. Some method of co-operation had to be found, and this begins the last period of this study. It should be noticed here that fire insurance had been going through an evolution, and step by step, the scope had become broader and better calculated to assist the business development of the country. New ideas and new doctrines had come to the front as necessity compelled. The rating by the National Board, through its state boards and local boards, had been so much of an improvement over the former conditions that things could not be permitted to go backward. Something new, however, had to be devised.

In the eighties, the field man proved the way out. He had been doing his work quietly and unobtrusively and the main difficulty had been lack of numbers and too large territory to oversee. The abdication by the National Board of its rate-making powers, threw a large amount of additional work upon his shoulders. Accordingly, in 1872, the New York State Association of Supervising and Adjusting Agents was organized; in 1881, the Underwriters' Association

of the Middle Department; in 1883, the Underwriters' Association of New York State and the New England Insurance Exchange; in 1882, the Illinois State Board of Fire Underwriters—all of which may be considered as pioneers in the attempts at co-operation. Into the hands of these associations the detailed work of rate-making was given. Upon them also fell the work of readjusting the local boards, so that the chain of co-operation might be complete. The local agents, then the special agent, and the problems which they could not individually adjust, were sent to the field men's organization and the residue of problems was sent up to the organizations of the companies. Two of these organizations were formed about this time, namely, the Western Union in 1879, and the Southeastern Tariff Association in 1882, while the Fire Underwriters of the Pacific had been in existence since 1870. The Western Union and the Eastern Union are now the managing underwriters' medium of co-operation in the territory east of the Rocky Mountains, while the Pacific coast is under another organization. An outgrowth of the National Board should be mentioned here, namely, the Fire Underwriters' Association of the Northwest. When the National Board gave up its rate-making function the Northwest Association became simply a social and educational association of the western field men, and has increased from year to year in power and influence, until it is the leading social and educational association of the field men in this country.

One of the first practical problems of this period was that of policy forms. There had gradually grown up a fairly satisfactory policy in some sections, but it was purely a local policy. Every city and every section used one that was a little different. Then again, the companies did not cling as closely to one form as they might, and as a result, in adjustments, there were conflicting forms. In reality it was difficult under those various forms to determine the liability of the corporation. The National Board adopted a standard policy, but it did not make much progress and finally, in 1873, Massachusetts provided for a standard policy, which was made obligatory in 1880 upon all companies operating in that state. In 1886 New York adopted a standard form of policy which became mandatory in January of the following year, and which is now in use in all the states where there are not special forms provided by statute.

The next step in the evolution was in the matter of inspections.

The mill mutuals, as certain New England companies are styled, were organized under the theory that it was cheaper to prevent fires than to pay losses. Therefore they developed a very thorough system of inspection and the use of fire preventive appliances. Chief among these fire preventive appliances are what are known as automatic sprinklers. The early sprinklers were not particularly satisfactory, but out of the evolution of experience came the modern heads, most widely known of which is the Grinnell. The stock companies found it necessary to meet the competition of these mill mutuals, and so there arose what is known as the Factory Insurance Association, organized in 1890. This was followed soon after by a similar organization in the West, and these organizations make a special feature of inspecting property and writing large policies upon such protected and inspected risks. In line with this idea is the spread of fire preventive methods. This fire prevention idea includes not only sprinklers, but construction, water supply, electrical wiring and numerous other provisions for the prevention of fire. The National Fire Prevention Association, organized in 1896, has done more to lessen the number of fires by means of proper construction than all other agencies put together. It has enlisted science, architecture and chemistry in the prevention of fires.

The rating problem has been and still is one of much difficulty. It is hard to build up a system of rates for fire risks which shall be equitable and easily comprehended by property owners. The physical character of risks varies so, and there is so little harmony in the matter of water supply and fire protective appliances in the different cities that the rating problem becomes and is many sided. The first systematic plan was devised by a committee of which F. C. Moore was chairman, and the schedule known as the universal mercantile schedule was promulgated in 1893. It is the main basis for fire insurance rates at the present time. In the late nineties, A. F. Dean, of Chicago, who had been making a careful study of rates, prepared a tariff known as a "Mercantile Tariff and Exposure Formula for the Measurement of Fire Hazards." It is based upon a different theory from the Moore schedule. It is more scientific and flexible and has come into quite general use in the Middle West, and bids fair, as regards principles at least, to become the basis of fire insurance rate making.

Legislation affecting fire insurance has grown from small be-

ginnings to one of large proportions. Legislation touches the fire insurance business at many points. In 1885, the State of New Hampshire enacted what is known as the valued policy law. This law prevented any questioning of the value of the buildings insured and the companies promptly withdrew from the state for several years. Laws similar to this have been enacted in quite a number of states, with the result of increasing the cost of insurance to the buyer. Then adverse legislation has also attempted to prevent co-operation between the companies through the enactment of anti-compact laws and the prohibition of certain clauses in policies. The men who levied taxes began soon after the war to realize that the insurance business was a good field for their activities, so they began to tax premiums, impose fees for filing statements and devise other taxes which aggregated a large amount and have always been a very material burden. As the needs of the states have increased, so the burdens imposed upon the companies have increased. In the later development of fire insurance, legislation and taxes have been among the most serious of the problems to be faced. Despite adverse legislation and the disintegrating tendencies of prosperity, co-operation has progressed. The companies have more and more found themselves unable to stand alone. There were so many points where their interests touched, so many ways in which they could help each other that co-operation has become a powerful factor in the business.

Another feature of this period was the foundation of organizations for adjustment of losses whereby a company, when it was not convenient to employ the special agents, could secure the service of trained and expert adjusters. These organizations do good work and fill a want long felt. This was followed in due time by a plan for minimizing the expense and increasing the efficiency of adjustments. This originated in New York and makes for progress in the matter of systematic work. Still another advance has been that of salvage wrecking or the handling and sale of damaged stocks, an advance which has manifested itself both in the form of company organizations and private corporations.

Despite the many lines of progress, however, there has been from time to time the recurring mutual wave and the Lloyds craze. The latest of these waves, that of Lloyds, has only recently receded. It followed a high tide of mutual experiment, neither of these waves evidencing any advance in the direction of sound underwriting.

After the Lloyds wave began to recede, legislation was invoked, and only last winter the New York legislature enacted legislation against the vanishing Lloyds form of underwriting. Duplication of company power was also attempted in 1897 and 1898 in the form of underwriters' agencies or the attempt to form two companies out of one. They created some discussion and friction, but only a few remain and it is questionable how successful they are. The latest phase of the business of insurance to be noted is that of the organization of the local agents into co-operative relations. The agents, like the companies, have found that they have many interests in common, and that one agent standing by himself does not amount to more than one company standing by itself. Having come to the conclusion that certain things of vital interest to them might be improved, they have formed a national association as well as state associations, whose work, as a whole, has been a benefit to the business.

From this historical study the reader will, no doubt, have noted the very great advance made in fire underwriting since the period when trees were not permitted in front of insured property. The evolution has been fragmentary, it is true, and not altogether in an orderly manner, but it has been a steady evolution nevertheless. Starting in ignorance of method, only having an object in view, the business of fire insurance has gradually reached out, and has more and more found a sure footing. The managers have noted where the relations of the business demanded changes; conflagrations have brought home to them certain truths; and when a form of organization or a method of doing business has broken down, men have been found to come forward to try something new, generally an advance over that which had been discarded. These men soon realized that the sole business of fire insurance was not simply to pay losses. The evolution has naturally been gradual up to the point where the skilled and capable underwriter recognizes that his business, being a part of public progress, should subserve the public interest best by preventing fires. Therefore, he has made concessions in rates for the men who will take the extra precautions in the line of building and fire prevention. His horizon has broadened and he sees that fire fighting and construction are closely related in the prosperity of his business. He has learned, but slowly it is true, but nevertheless he has learned, that what the public desires above



everything else, is certainty, and while he has grumbled many times at the intervention of the state in his business, to-day he recognizes that intervention, as a rule, makes for the certainty which both he and the assured desires. There are many incidents and events in the century and a half of fire insurance in this country, which might have been wisely different, but taken as a whole, it has been a sound and progressive development, comparing favorably with that of any other line of business.